

GENERAL INFORMATION

The Community Reinvestment Act ("CRA") requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with the safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the CRA performance of First State Bank of Warner, Warner, South Dakota, prepared by the Federal Reserve Bank of Minneapolis, the institution's supervisory agency, as of January 21, 1997. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 228.

INSTITUTION'S CRA RATING: This institution is rated "Satisfactory."

There are a number of factors that support the bank's satisfactory rating. First, the bank maintains a reasonable loan-to-deposit ratio. Second, the bank has made a significant majority of its loans within its assessment area.

Third, based on an analysis of its loans, the bank lends to borrowers of different income levels and to small businesses and farms. Finally, its loans are reasonably distributed among geographies of different income levels.

The following table indicates the performance level of First State Bank of Warner, Warner, South Dakota, with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	FIRST STATE BANK OF WARNER WARNER, SOUTH DAKOTA PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does Not Meet Standards for Satisfactory Performance
Loan-to-Deposit Ratio		X	
Lending in Assessment Area	X		
Lending to Borrowers of Different Income Levels and to Businesses of Different Sizes		X	
Geographic Distribution of Loans		X	
Response to Complaints	No CRA complaints were received since the previous evaluation.		

DESCRIPTION OF INSTITUTION

The bank is able to meet the credit needs of the communities in its assessment area effectively. At its last CRA performance evaluation, the bank received a satisfactory rating. The bank maintains a full-service office in Warner, South Dakota. While the bank does not operate any automated teller machines ("ATM"), it offers its customers ATM cards that access local as well as national and international networks.

The bank's size supports its ability to meet the credit needs in its assessment area. According to the December 31, 1996, Report of Condition ("ROC"), the bank's total assets were approximately \$20.6 million. Since December 31, 1994, the bank's total assets have increased approximately \$1.8 million, or 10%. Loan volume for the bank has been relatively stable. Net loans have increased \$1.6 million since the previous evaluation. The bank is primarily an agricultural lender. Agricultural loans are the largest percentage of the portfolio at 64%. The remainder of the loan portfolio is 24% commercial, 11% consumer, and 1% consumer real estate. The composition of the loan portfolio reflects the agricultural nature of the area the bank serves. The low level of real estate lending is influenced by the bank's size and proximity to Aberdeen, South Dakota, a regional trade center with many financial institutions.

The bank offers a variety of loan products to meet the credit needs of the residents of its assessment area. It extends agricultural, commercial, and consumer loans. In addition to offering these conventional loan products, the bank also participates in government- and state-sponsored loan programs, including the Small Business Administration, Farm Service Agency, and the Northeast South Dakota Energy Conservation Corporation.

DESCRIPTION OF FIRST STATE BANK OF WARNER'S ASSESSMENT AREA

The bank defines its assessment area as portions of Brown and Spink counties as well as all of Faulk and Edmunds counties in northeastern South Dakota. The block numbering areas ("BNA") in Brown County include BNA 9512 through BNA 9519. Two BNAs, 9562 and 9563, are located in Spink County. Faulk County contains one BNA, 9811, while Edmunds County contains two BNAs, 9821 and 9822. All of the BNAs in the assessment area except 9513, 9514, and 9516 in Brown County are classified as middle income; the remaining three BNAs are classified as upper income.

According to 1990 census data, the population of the assessment area is 45,741. The bank is located in Warner, 10 miles south of Aberdeen. As previously mentioned, Aberdeen is the regional trade center for the area. The 1990 census data indicate the population of Aberdeen is 24,927 and Warner's population is 336. Other communities in the bank's assessment area include Faulkton, Redfield, and Ipswich.

CRA divides income levels into four categories: low, moderate, middle, and upper. Because the bank's assessment area is not in a metropolitan statistical area, the categorization of a borrower or BNA's income is determined relative to the statewide nonmetropolitan median family income. Low-income individuals have incomes of less than 50% of the statewide nonmetropolitan median family income, while moderate-income individuals have incomes of at least 50% but less than 80% of this amount. The regulation defines a middle-income person as one with an income of at least 80% but less than 120% of the statewide nonmetropolitan median income. An individual with an income that is 120% or more of the statewide nonmetropolitan median income is considered an upper-income person. BNAs are classified using similar categories based on the level of the median family income in the geography.

As mentioned previously, all the BNAs in the bank's assessment area are classified as middle or upper income. According to 1990 census data, the

assessment area's median family income is \$28,061, while the median household income is \$22,059. The figures for nonmetropolitan areas in South Dakota are \$25,547 and \$20,736, respectively. Of the 17,808 households in the assessment area, approximately 21% are low income, 16% are moderate income, 18% are middle income, and 45% are upper income. Approximately 15% of the households and 10% of the families have incomes below the poverty level.

Examiners contacted a government official familiar with agricultural credit needs of the assessment area. Information obtained from the contact was used in evaluating the bank's CRA performance.

As mentioned previously, the bank is primarily an agricultural lender. The local economy of the assessment area, outside of the immediate Aberdeen city limits, is also agricultural. Farmers in the area primarily raise small grains, typically wheat, corn, and soybeans. There also are a number of livestock operations. Bank management and the community contact noted that 1996 was an excellent year for area farmers. The agricultural outlook is uncertain because of the severe winter the area has experienced. Livestock operations have suffered losses as a result of the severe cold and spring flooding from the above-average snowfall could cause more problems.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank has done a satisfactory job of meeting the credit needs of its assessment area. Much of the analysis on the following pages was based on the examiners' review of a sample of 76 agricultural/commercial loans and 73 consumer loans the bank originated in the six months preceding the evaluation. The following criteria were reviewed in determining this rating.

LOAN-TO-DEPOSIT RATIO ANALYSIS

The bank's loan-to-deposit ratio meets the standards for satisfactory performance. Since the previous evaluation, the quarterly average of the bank's net loan-to-deposit ratio is 78.9%. According to the December 31, 1996, ROC, the bank's loan-to-deposit ratio was 77.4%. The following chart, based on quarterly ROC data, shows the seasonal fluctuations in the loan-to-deposit ratio that are common in a predominantly agricultural loan portfolio.

DATE	NET LOANS (In thousands)	DEPOSITS (In thousands)	NET LOAN-TO- DEPOSIT RATIO
December 31, 1996	\$13,374	\$17,281	77.4%
September 30, 1996	\$13,560	\$16,652	81.4%
June 30, 1996	\$13,509	\$16,544	81.7%
March 31, 1996	\$12,042	\$15,045	80.0%
December 31, 1995	\$11,906	\$16,062	74.1%
September 30, 1995	\$12,495	\$15,947	78.4%
June 30, 1995	\$12,145	\$16,025	75.8%
March 31, 1995	\$11,769	\$14,354	82.0%

Loan volume typically decreases at year-end when borrowers pay down lines of credit as they receive payments for harvested crops and the sale of livestock. Likewise, loans increase in the first quarter as supplies are purchased for the new growing season. Deposits also increase at year-end as surplus funds are invested.

According to its September 30, 1996, Uniform Bank Performance Report, the bank's 81.4% loan-to-deposit ratio is above its peer group average of 62.5%. The bank's ratio places it in the 91st percentile compared with its peers. The following chart shows the average loan-to-deposit ratio for the bank's competitors, using September 30, 1996, quarterly ROC data.

BANK	TOTAL ASSETS September 30, 1996 (In thousands)	QUARTERLY NET AVERAGE LOAN-TO-DEPOSIT RATIO
Subject Bank	\$20,352	78.9%
Competitor A	\$30,675	80.3%
Competitor B	\$24,085	64.8%
Competitor C	\$21,370	42.8%

As shown above, the bank's quarterly average net loan-to-deposit ratio compares favorably with the ratios of its competitors. Bank management and a community contact concurred that the loan demand for the area remains strong. The community contact did not identify any unmet credit needs for the area. Accordingly, based on the level of lending by the bank and the information from the community contact, the bank's loan-to-deposit ratio meets the standards for satisfactory performance.

COMPARISON OF CREDIT EXTENDED INSIDE AND OUTSIDE THE ASSESSMENT AREA

A review of the statistical sample of the loans originated by the bank in the six months preceding the evaluation reveals that a significant majority of its loans were made inside the assessment area. The following table shows the percentage of loans within the assessment area based on total number and loan amount in each major loan category.

PERCENTAGE OF LOANS IN THE ASSESSMENT AREA		
Loan Type	Total Number of Loans	Total Amount of Loans
Consumer	85	83

Agricultural/Commercial	91	91
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Based on the high concentration of lending within the assessment area, the bank's lending in the assessment exceeds the standards for satisfactory performance.

LENDING TO BORROWERS OF DIFFERENT INCOME LEVELS AND TO BUSINESSES OF DIFFERENT SIZES

The bank's level of lending to individuals of different income levels and to businesses of different sizes meets the standards for satisfactory performance. As discussed, CRA classifies income levels into four categories: low, moderate, middle, and upper. According to 1990 census data, the median household and family incomes for the bank's assessment area are \$22,059 and \$28,061, respectively. Both figures are above the statewide nonmetropolitan household and family incomes of \$20,736 and \$25,547, respectively.

As previously mentioned, the performance evaluation was based on a statistical sample of 76 agricultural/commercial loans and 73 consumer loans. However, income data was available for only 40% of the consumer loans in the sample. The scarcity of income data made analysis of income distribution for consumer loan borrowers of little value. Because of that fact, the analysis in this section of the evaluation is based on the agricultural/commercial sample.

Agricultural and commercial loans are the bank's primary focus. As previously mentioned, approximately 88% of the bank's loan portfolio falls into these categories. All of the 69 agricultural/commercial loans in the bank's assessment area were to borrowers with gross annual revenues of \$1 million or less. In addition, 97% of the loans were for amounts less than or equal to \$100,000. There was one loan in the sample that was for more than \$100,000 but less than \$250,000 and another loan for more than \$250,000 but less than \$1 million. Given that agricultural and commercial loans make up the largest percentage of the loan portfolio, the size and volume of the loans appear reasonable.

Overall, the bank's emphasis on lending to small businesses and farms meets the standards for satisfactory performance. This conclusion is based on the available data for small agricultural/commercial lending. The lack of income data for consumer loans did not allow analysis of that loan category and precluded a higher rating in this category.

GEOGRAPHIC DISTRIBUTION OF LOANS

The distribution of the bank's loans between geographies of different income levels is reasonable and meets the standards for satisfactory performance. As previously discussed, there are no low- or moderate-income BNAs in the bank's assessment area. The assessment area is composed of ten middle-income BNAs and three upper-income BNAs. Approximately 64% of the population resides in the middle-income BNAs and 36% resides in the upper-income BNAs. The following chart illustrates the bank's lending in the different geographies.

DISTRIBUTION OF LOANS IN THE ASSESSMENT AREA BY BNA INCOME LEVEL		
LOAN TYPE	MIDDLE INCOME	UPPER INCOME
CONSUMER		
Total Number of Loans	92%	8%
Total Amount of Loans	93%	7%
AGRICULTURAL/COMMERCIAL		
Total Number of Loans	90%	10%
Total Amount of Loans	89%	11%

It should be noted that the three upper-income BNAs are located within the city limits of Aberdeen, where there are numerous financial institutions. The bank's size and limited penetration of the Aberdeen market explains the low level of lending in the upper-income geographies and is reasonable given the strong competition in Aberdeen. Based on this data, the bank's lending among different geographies in the assessment area is reasonable and meets the standards for satisfactory performance.

GENERAL

The evaluation revealed isolated technical violations of the Equal Credit Opportunity Act and the Fair Credit Reporting Act. Bank management promised to correct the violations promptly. In addition, the bank has not received any CRA-related complaints since the previous evaluation.

PUBLIC DISCLOSURE

January 21, 1997

Date of Evaluation

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First State Bank of Warner

Name of Depository Institution

094615200000

Identification Number of Institution

Warner, South Dakota

Address of Institution

Federal Reserve Bank of Minneapolis
250 Marquette Avenue
Minneapolis, Minnesota 55401-2171

NOTE: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.